Office of
Financial Management
STATE OF WASHINGTON

Activity Inventory Performance Measure Assessment
Department of Financial Institutions (DFI)
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Office of Financial Management Assessor:

Jeffrey Showman
Budget Assistant to the Governor
Office of Financial Management (OFM)
360.902.7536
jeffrey.showman@ofm.wa.gov

Agency Participants:

Gloria Papiez, Michael Schmidlkofer,
Linda Jekel, Nick Klucarich

Based on a review of the following: OFM Performance Measure Tracking System; *DFI Strategic Plan, 07-09 Biennium*; DFI internal GMAP materials, July 9, 2007; *2004 Communications Overview*

Current Strengths and Good Practices

- Department of Financial Institutions (DFI) reviews data in internal "GMAP" sessions to improve performance, and several measures are the same as reported to OFM.

- DFI's measures are very understandable for the most part, and there is a clear link between the agency's work and its measures.

Comments About the Budget Activity Measures

- For many measures, DFI is performing better than its target levels. While this may be due to high performance, in some cases it may also be due to setting overly-conservative targets.

- DFI seems to use somewhat different measures for its internal GMAP and OFM budget reporting. It might tell a more coherent story about the agency's work if it could use similar measures for multiple purposes. Agency comment: Our GMAP forum was recently revamped to focus more on problem solving, so measures in GMAP will vary depending on problem being worked.

Potential Improvements

- DFI should consider setting new targets for many measures to reflect current performance levels.

- The agency's Management and Administrative Activity has no performance measure. DFI should consider measuring performance of its services to internal customers. Measures used by other agencies that may be applicable to this activity include:

  - Availability or use of agency databases or networks, or

  - Time to process travel vouchers.

- Agency comment: Although we use measures internally for Administrative activities, we have limited our measures in the performance measure tracking (PMT) system to those that reflect our core programmatic activities.

Agency Comments

- DFI staff provided detailed comments and explanations in response to the draft Assessment. These comments have been edited and incorporated into relevant slides.

- The Assessment has also been edited to incorporate information from the agency.

Links: Statewide Results and Strategies with Budget Activities & Measures

Statewide Result Area

Improve the economic vitality of businesses and individuals

Statewide Strategies

Regulate the economy to ensure fairness, security and efficiency

Provide consumer protection

Current Budget Activities

Chartering, Licensing and Registration (A002)

Examinations (A005)

Agency Management and Administrative Services (A001)

Enforcement (A004)

Education and Public Outreach (A003)

Current Performance Measures

Turnaround time for registration applicants (4203)

Number of days to process and issue a license (5203)

Banks with satisfactory examination ratings (2506)

Banking assets held at institutions with satisfactory ratings (2507)

Credit unions with satisfactory examination ratings (3505)

Assets held at credit unions with satisfactory ratings (2507)

Number of enforcement actions taken (6401)

Days to resolve consumer complaints (5402)

Consumers rate outreach programs and materials as helpful (1307)

Legend

Budget Activity Linked to a Performance Measure

Budget activity with no measure

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Turnaround time for registration applicants (4203)

Number of days to process and issue a license (5203)

Days to resolve consumer complaints (5402)

Number of enforcement actions taken (6401)

Process characteristics that customer- stakeholders want

Product or service attributes customers/stakeholders want

Customer/stakeholder desired outcomes

| Input measures | Process measures | Output measures | Outcomes |

Process characteristics the agency wants

Product/service attributes the agency wants

Agency desired outcomes

Consumers rate outreach programs and materials as helpful (1307)

Banks with satisfactory examination ratings (2506)

Banking assets held at institutions with satisfactory ratings (2507)

Credit unions with satisfactory examination ratings (3505)

Assets held at credit unions with satisfactory ratings (3506)

Note: DFI added three performance measures to the OFM system during this Assessment which were not analyzed in this report:

Number of complaints received per quarter (6402)

Number of licensees (6201)

Number of examinations per quarter (6501)

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Activity Measure Assessment – Banks with satisfactory ratings

Performance Measure Description: Banks with satisfactory examination ratings (2506)

Budget Activity Links: Examinations (A005)

Category of Measure: Outcome measure

Analysis of Variation: The data shows two distinct periods of predictable, stable performance: a consistent declining trend (2001-03 Q1 to 2005-07 Q2) and a period of much higher performance beginning in 2005-07 Q3.

Analysis of Targeted vs. Actual Performance: For six quarters, actual performance (average of 97%) has well above the target of 90%. See General Comments, below right.

Percent of banks with satisfactory examination ratings

Actual amount

2006-07 Avg.

Trend 2001- 05

Target

Percent (y-axis: 65, 70, 75, 80, 85, 90, 95, 100, 105)

Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8 Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8 Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8

2001-03   2003-05   2005-07

Desirable Characteristics

Relevance: Good - DFI conducts bank examinations to evaluate the soundness of financial institutions.

Understandability: Good, although the measure notes could be used to explain what constitutes a satisfactory examination rating.

Reliability & Timeliness: Good

Comparability: Good - this measure is also used for credit unions.

General Comments & Explanations:

• Banks and credit unions are rated using a standard system that looks at six factors: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk.

•In Q3 of fiscal year 2005, the Division of Banks (DOB) took enforcement actions for corrective measures which resulted in improved performance. In some cases management was replaced at problem banks, in one case a problem bank was acquired by another institution with satisfactory ratings. Overall, the general economy improved beginning in 2005.

• The target of 90% is set near the lowest historic performance level, and well below recent performance. DFI may want to set the target higher. DFI comment: A 90% target is reasonable from a historical perspective and current market expectations. Real estate market conditions are trending downward and Washington chartered banks are heavily real estate dominated.

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Activity Measure Assessment – Assets at banks with satisfactory ratings

Performance Measure Description: Banking assets held at institutions with satisfactory ratings (2507

Budget Activity Links: Examinations (A005)

Category of Measure: Outcome measure

Analysis of Variation: Performance falls into two distinct periods: an unpredictable downward trend (from Q1 2001-03 to Q1 2005-07) followed by an increasing trend.

Analysis of Targeted vs. Actual Performance: Performance fell below the target of 95% only once, in Q1 of 2005-07. The target seems to be a "floor", as it is set below the three-year average.

Percent of banking assets held at institutions with satisfactory ratings

Comments About Desirable Characteristics

Relevance: This measure is very relevant to why DFI does bank examinations (so that public assets are deposited in sound institutions).

Understandability & timeliness: Good

Comparability: Good – also used for credit unions.

Cost Effectiveness: Is in the agency's strategic plan and used in agency GMAP sessions.

General Comments & Explanations:

• What factors affected the drop in assets held at institutions with satisfactory ratings between Q4, 2003-05, to Q1, 2005-07, and the subsequent increase? Agency comment: The percent of banking assets held at institutions with satisfactory ratings fell beginning Q3 2005 because of management weaknesses and asset quality problems. These weaknesses were addressed by the regulatory actions noted on slide 8.

• DFI may want to increase the target, since it is well below actual performance. Agency comment: Increasing the target to 98% from 95% is a fairly nominal change, but the addition of even one larger institution would make the ratio fall below 98%, and this can occur for any number of reasons.

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Activity Measure Assessment – Credit unions with satisfactory ratings

Performance Measure Description: Credit unions with satisfactory examination ratings (3505)

Budget Activity Links: Examinations (A005)

Category of Measure: Outcome measure

Analysis of Variation: This is an unpredictable process, so it is impossible to judge what future performance may be. See General Comments.

Analysis of Targeted vs. Actual Performance: Performance has exceeded the target for the past 4 ½ years.

Percent of credit unions with satisfactory examination ratings

Median = 90%

Target = 80%

Per cent

Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8 | Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8 | Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8

2001-03 | 2003-05 | 2005-07

Comments About Desirable Characteristics

Relevance: Good - DFI conducts bank examinations to evaluate the soundness of financial institutions.

Timeliness: Good

Understandability: Good, although the measure notes could be used to explain what constitutes a satisfactory examination rating.

Comparability: Good. The same measure is used for banks.

Reliability: Good

Cost Effectiveness:

General Comments & Explanations:

• This is an unstable process, meaning that statistical analysis can't provide any insights about what future performance might be.

• Agency comment: The economy is a major factor for these results. 40% of state chartered credit unions are considered "small" compared to banks, and small credit unions are more susceptible to problems in the economy. The typical reasons for rating downgrades in 2005 were taking on too much real estate lending risks, rising short term interest rates impacting earnings, and various management weaknesses.

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Activity Measure Assessment – Assets at credit unions with satisfactory ratings

Performance Measure Description: Assets held at credit unions with satisfactory ratings (2507)

Budget Activity Links: Examinations (A005)

Category of Measure: Outcome measure

Analysis of Variation: Performance has varied within a very narrow range, from 96% to 99%.

Analysis of Targeted vs. Actual Performance: Performance has consistently exceeded the target of 95%

Percent of credit union assets held at institutions with satisfactory ratings

Comments About Desirable Characteristics		General Comments & Explanations:

Relevance: Although this measure is very relevant to why DFI does examinations (so that assets are deposited in sound institutions), outcome measures such as this can be influenced by a number of factors outside the agency's control.

Understandability: Good

Reliability:

Timeliness: Current (quarterly data) is an improvement over the previous reporting cycle (annual data).

Comparability: Good – also used for banks.

Cost Effectiveness: Is in the agency's strategic plan and used in agency GMAP sessions.

General Comments & Explanations:
• DFI may want to increase the target, since it is below actual performance. Agency comment: The target is 95%; the average was 97% over the 11 periods reported. We are entering an economic period with possible problems in the housing sector that may ripple into a downturn in the economy. Small credit unions' profitability is highly reflective of the local/state economy and we are expecting examination downgraded ratings if delinquencies and foreclosures follow the national trend. (We believe Washington is lagging in the housing downturn.)

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Performance Measure Description: Turnaround time for registration applicants (4203)

**Budget Activity Links:** Chartering, Licensing and Registration (A002)

Category of Measure: A process measure, from the customers' perspective.

Analysis of Variation: This measure was discontinued for one biennium, so the data looks at two periods. Performance appears to be stable and predictable during either period, but there was a change between the periods, as average performance jumped from 5.4 days to 9.8 days.

Analysis of Targeted vs. Actual Performance: Performance has exceed the target during every quarter.

Days for initial response to registration applicants

Note: no data when measure was discontinued in 2003-05
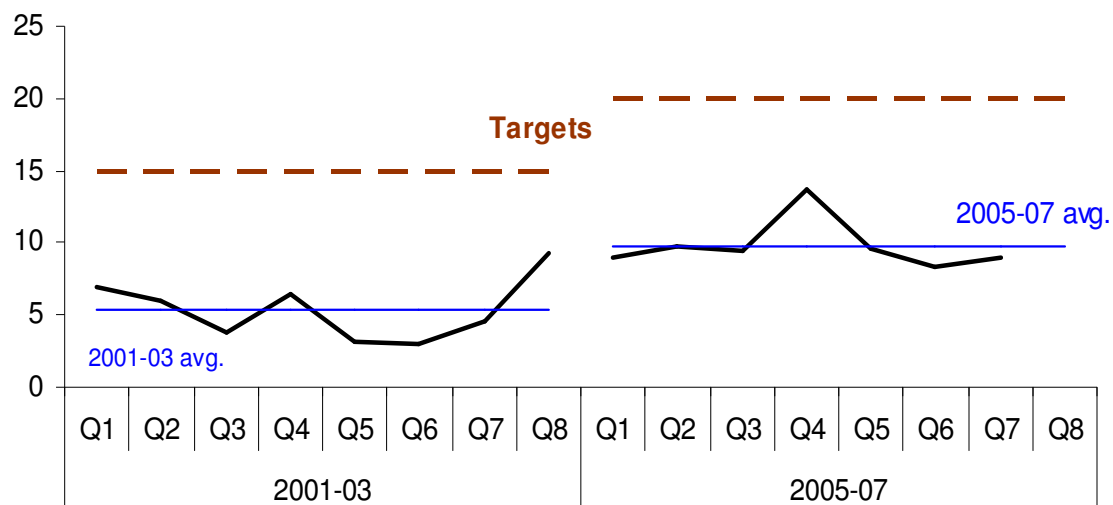
Comments About Desirable Characteristics

Relevance: Good. This measure is relevant to the activity's work, and customers are interested in timely responses. The initial response is within the Division's control, and is a necessary first step.

Understandability: Good. Although it isn't immediately clear how the term "initial response" differs from other stages in the registration process, a timely initial response allows more time for subsequent steps. See General Comments.
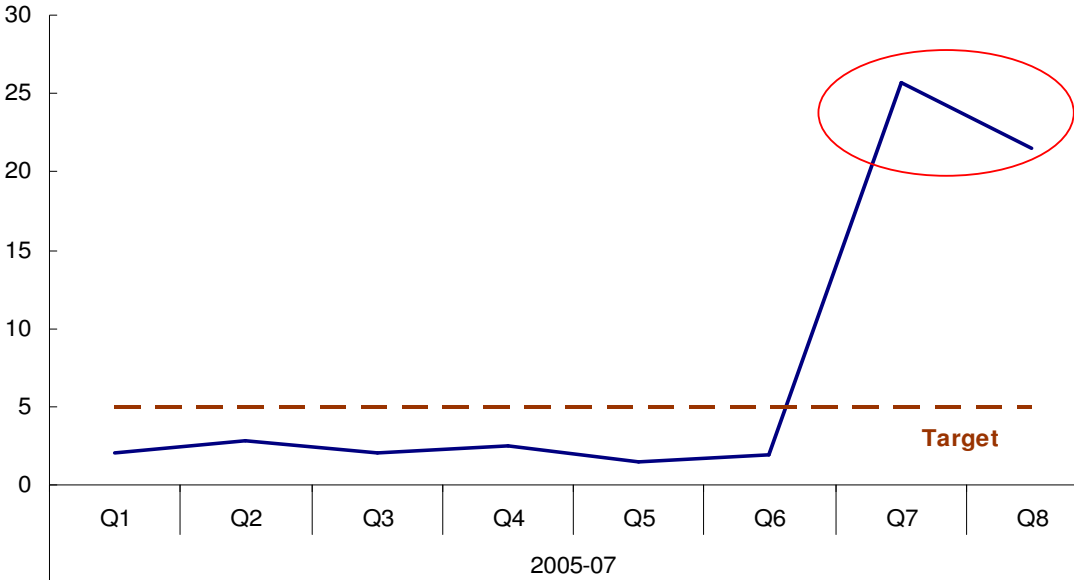
Timeliness: Good

Cost Effectiveness: In internal GMAP sessions, DFI examines several measures relating to applications so this data may be re-used.

General Comments & Explanations:

• Agency comment: The laws governing this activity require DFI to act quickly. Generally, an offering will become effective within 15 business days of filing unless the Division enters an order denying the application or the applicant waives this automatic effectiveness provision. The Division's initial response sets forth issues that must be resolved before registration is granted. A timely response allows the applicant more time to address these issues and coordinate with other regulators.

• The measures are not identical for the two biennia: the 2001-03 measure tracked the response time for both initial registration applications as well as for amendment and renewal applications. The 2005-07 target was set at 20 calendar days which approximates 15 business days. The 2007-2009 target has been set at the statutory 15 days.

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Activity Measure Assessment – Days to issue a license

Performance Measure Description: Number of days to process and issue a license (5203)

Budget Activity Links: Chartering, Licensing and Registration (A002)

Category of Measure: Process measure, from the customers' perspective

Analysis of Variation: A new licensing program added by the legislature in 2006 (loan originators) produced a much higher volume of license applicants than expected (15,000 instead of 8,000), which in turn affected days to process a license.

Analysis of Targeted vs. Actual Performance: Performance of under 3 days was well below the target until change in duties mentioned above.

Average business days to process and issue a license

Comments About Desirable Characteristics

Relevance: Very relevant

Understandability & timeliness: Good

Comparability: Although it seems as if this measure (for licenses) should be comparable to the the previous measure (registrations), they measure different processes. See DFI comments, right

Cost Effectiveness: Good - used in internal GMAP sessions.

General Comments & Explanations:
• DFI Comments: The spike in average time to process and issue a license was the result of the filing of over 15,000 new loan originator license applications. By Q8, the turnaround time for all licenses except loan originators was back down to 10 business days, our new measure as of July 1, 2007. By mid-August of 2007, the average turn around time for new loan originator licenses was also 10 business days. However, performance suffered as the Division processed the final backlogs from the initial wave of over 10,000 loan originator license applications.

• DFI comments re Comparability (left): These are two separate activities. Registration involves registering initial securities offerings in our state. Time frames for registration can vary. Licensing turnaround is more measurable and involves a start-to-finish measurement.

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Activity Measure Assessment – Days to resolve consumer complaints

Performance Measure Description: Days to resolve consumer complaints (5402)

Budget Activity Links: Enforcement (A004)

Category of Measure: Process measure

Analysis of Variation: There is a weak trend over the past four years of reducing the amount of time to resolve consumer complaints. However, the process is not predictable, as the spike in Q3 2005-07 is outside normal process limits.

Analysis of Targeted vs. Actual Performance: Performance has almost met the target of 120 days twice, in Q2 and Q6 (with performance of 123 and 124 days, respectively). However, performance has also been almost 75% higher than the target between those periods (209 in Q3).

Average business days to resolve consumer complaints

Trend = - 4 days per Q

Target

Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8 | Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8

2003-05   2005-07

Comments About Desirable Characteristics

Relevance: Time to resolve a customer complaint is very relevant to this activity and to what customers want, but consumers tend to think in terms of calendar days, not business days.

Understandability: See Relevance and General Comments.

Reliability: DFI comment: Variability can be affected by the number of complaints, complaint complexity, and staffing levels.

Timeliness: Good

Comparability: Converting to business days from calendar days makes this less comparable to other measures.

Cost Effectiveness: Good - this measure is tracked in internal GMAP sessions.

General Comments & Explanations:
• Measuring in terms of "business days" rather than calendar days makes this measure less comparable to other measures. DFI comment: In order to make the measure meaningful to us, we keep our statistics based upon the business days it takes to do the work. While consumers may think in terms of calendar days, consumers should be aware of the number of working days it will take for the Department to respond to them.

• What caused the dramatic increase in resolution time in Q3? DFI comment: The person that had been responsible for complaint review retired and we had some significant training issues to deal with.

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Activity Measure Assessment – Number of enforcement actions

Performance Measure Description: Enforcement actions (6401)

Budget Activity Links: Enforcement (A004), including two Divisions: Securities and Consumer Services

Category of Measure: This is an output measure

Analysis of Variation: Although it's not visible in the cumulative data (top chart), the Q8 increase is outside normal process limits (middle chart). The change in enforcement actions is due to several factors in the Consumer Division, including an increase in complaints, additional staff, and focused work. See Agency comments under General Comments, below.

Analysis of Targeted vs. Actual Performance: The target appears to be an estimate. The number of enforcement actions fell below the target for 6 quarters and then picked up due to addition of new staff.

Relevance & Understandability: Enforcement actions are very relevant to this activity. Quarterly data would be more understandable than cumulative.

Reliability & Cost Effectiveness: Good, used in internal GMAP reports

Timeliness & Comparability: Good

General Comments & Explanations:
• The measure is reported as cumulative annual data, although DFI reports quarterly data for each of the two divisions as well. Reporting quarterly data would show performance better than cumulative data.

• Agency comments: More enforcement actions by the Consumer Division reflects an increase in the number of complaints (over 4,000 since 2003) and the addition of staff resources during the 2005-2007 biennium. The Securities Division has received over 400 hundred complaints every calendar year since 2000. Most of its enforcement actions are against unregistered (unregulated) individuals or entities. Performance can also vary greatly depending on complexity of cases.
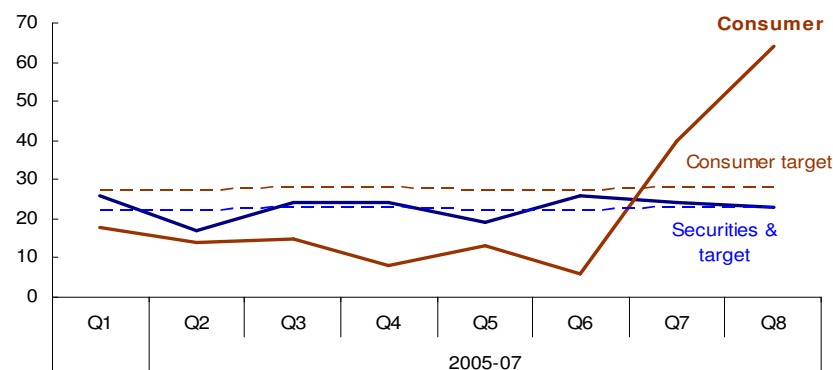

Enforcement actions, cumulative per year
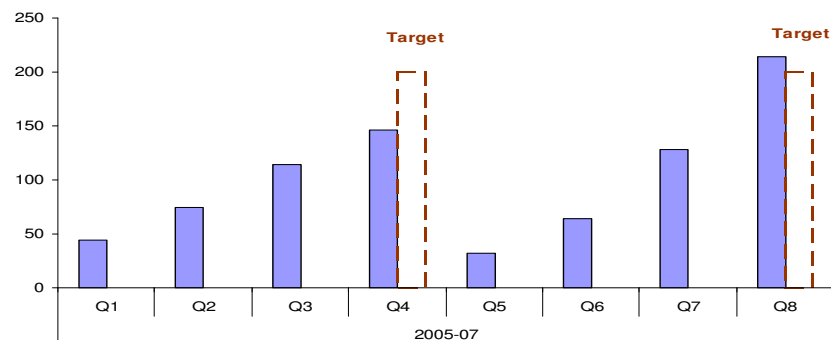
Enforcement actions per quarter
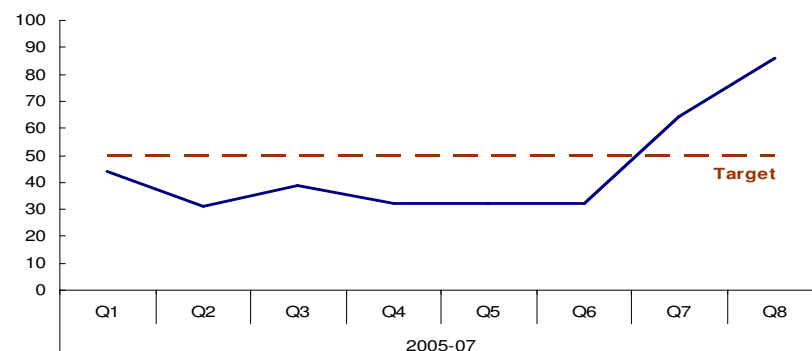
Enforcement actions per quarter, DFI Securities and Consumer Services

Activity Measure Assessment – Helpful consumer publications

Performance Measure Description: Percentage of consumers who rate DFI outreach program and materials as helpful (1307)

Budget Activity Links: Education and Public Outreach (A003)

Category of Measure: Process measure

Analysis of Variation: The ratings were highest and lowest in consecutive quarters of 2005 (Q1 with 88 and Q2 with 75.3), and the magnitude of change in performance is outside of expected process limits.

Analysis of Targeted vs. Actual Performance: DFI increased the target in Q5, and met that target in the last two quarters of the biennium.

Percent of consumers rating DFI publications as helpful

Comments About Desirable Characteristics

Relevance: Having materials and programs that help consumers seems relevant to the education and public outreach activity.

Timeliness: Good

Understandability: This seems clear on the surface, but there is some ambiguity about: what is included as a publication; how consumers are polled; and how "helpful" is defined.

Comparability: According to notes, DFI will soon begin gathering data via a web survey keyed to specific programs and events. This may affect the comparability of data.

Reliability: According to footnotes to this measure, Q6 data was corrupted so is not available.

General Comments & Explanations:
• Is there an explanation for what happened to cause the relatively large drop in consumer helpfulness ratings between quarters 1 and 2 of 2005?   Agency comment: The website was launched in November of 04 and had rating forms on relatively few pages of the website. This limited the number of responses, which could increase volatility. Actions taken were to add the rating forms to more pages, improve navigations within the website, and improve the site further based on comments made in the surveys. We also expanded the consumer information sections of the website and launched several new pages, including Spanish education pages. In 07-09 this measure will expand to events hosted by DFI or which DFI participates as a partner.

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